

GRAVES COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year ended June 30, 2013

GRAVES COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
and Members of the Board of Education
Graves County School District
Mayfield, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Graves County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Kentucky Public School District's Independent Auditor's Contract, including *Appendix I to the Independent Auditor's Contract – Audit Extension Request* and *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Graves County School District as of June 30, 2013 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 37 through 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Graves County School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 11, 2013, on my consideration of the Graves County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Graves County School District's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Kim Glan". The signature is written in a cursive, flowing style.

Benton, Kentucky
November 11, 2013

**GRAVES COUNTY PUBLIC SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the Graves County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning unassigned general fund balance for the District was \$810,942. As a result of reduced and delayed spending and significant program cuts, the ending unassigned general fund balance is \$1,374,866
- The combination of all governmental and proprietary funds yielded \$43,456,893 in revenue. The combination of all governmental and proprietary funds yielded \$42,627,892 in expenditures. This yielded a gain in fund balance of \$829,001, a significant recovery from the previous fiscal year. The ending unassigned fund balance for all general and proprietary funds is \$1,370,376.
- Property assessments, generated on July 31, 2012 and then certified to the District Board of Education by the Kentucky Department of Education, showed total real and personal property valuations at \$1,296,956,680 and motor vehicle valuations at \$172,561,411. For each \$100 of assessed value, the Graves County Board of Education adopted a tax levy of 37.5 cents on real and personal property and a motor vehicle levy of 46.4 cents for the 2012-13 school year. At 100% collections, the district could have anticipated revenues of \$4,863,588 on real estate and \$800,685 for motor vehicles. Aided by strong prior year collections in franchise taxes, the district actually received \$5,167,012 in real estate and personal property taxes in 2012-13. The district also benefited from higher than expected motor vehicle collections of \$927,530.
- During FY13, the District received \$18,327,789 in state Support Education Excellence in Kentucky (SEEK) funds, a reduction of \$226,790 from the previous year. This reduction is a result of a \$70 per student cut in the per pupil base funding amount from \$3,903 to \$3,833, and from a 41 student decline in average daily attendance.
- While transportation was once funded by the state at 100% of the district cost, the SEEK calculation in FY 13 included transportation funding at only 59% of total cost, down from 61.7% in the previous year. Diesel fuel expenses increased \$100,740 (21.5%) from FY 12 because of continued high fuel prices. The district purchased two new 84-passenger buses with FY 13 funds; however, this is not sufficient numbers to offset fleet retirements in future years. The district will be forced to allocate additional funds in future years to properly maintain its fleet.
- There were no salary increases during FY13 except for normal step increases and rank changes.
- The district expense for “matching” contributions to the Kentucky Teacher Retirement System for FY 13 increased .50% to 1% for all certified employees to a total district cost of \$159,790. This burden will increase to 1.5% in FY14 (at an additional Fund 1 cost of \$68,489); 2.25% in FY15 and 3.0% in FY16 when it is projected to cost the district in excess of \$450,000 in Fund 1 alone. These are funds that districts must cover without any additional state reimbursement.
- The General Fund received \$26,583,657 in revenue (excluding on behalf revenue, inter-fund transfers, and recovery of property), which primarily consisted of ad valorem property and motor vehicle taxes (22.3%), SEEK funding (69.0%), and utility taxes (6.2%). Excluding inter-fund transfers and on behalf expenditures, there was \$25,967,016 in General Fund expenditures. The district continues to operate with a high percentage of Fund 1 expenditures paid for personnel salaries (75.9%) and personnel benefits (7.2%), while non-personnel maintenance costs (7.1%) and non-personnel transportation costs (3.9%) represent the largest other categorical expenses. The net excess of revenues over expenses in FY 13 enabled the district to strengthen its overall financial position entering FY 14.

FINANCIAL HIGHLIGHTS (Continued)

- Fund 51 (Food Service) experienced a difficult year of transition. The beginning restricted balance of \$412,483 was impacted immediately by \$238,300 in costs for much needed renovations and furniture purchases in the Graves County High School cafeteria. Over-staffing and increased salary costs, rising food costs (\$173,350 or 13.4%) of attempting to meet new federal guidelines, and lowered participation rates as staff was challenged to develop new menus of foods that students would eat created a difficult environment for maintaining profitability. The ending restricted balance for food service was \$12,711. Food service personnel continue to search for means of food preparation that will make the food more appealing to students and increase participation revenues, to comply with federal guidelines while lowering food costs, and to reduce personnel costs in order to return to profitability.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operation. All other activities of the district are included in the governmental funds.

The basic fund financial statements can be found on pages 11 through 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 20 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$22,513,794 as of June 30, 2013. The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

A simple comparison of two years can be made to identify significant changes in the current year. The following provides that comparison:

<u>Net Position as of June 30</u>	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets			
Current Assets	\$ 2,408,425	\$ 2,227,695	\$ 180,730
Noncurrent Assets	45,595,387	47,046,491	(1,451,104)
Other Assets	348,875	381,954	(33,079)
Total Assets	<u>\$ 48,352,687</u>	<u>\$ 49,656,140</u>	<u>\$ (1,303,453)</u>
Liabilities and Net Position			
Current Liabilities	\$ 2,894,063	\$ 2,721,835	\$ 172,228
Noncurrent Liabilities	22,944,830	25,249,512	(2,304,682)
Total Liabilities	<u>\$ 25,838,893</u>	<u>\$ 27,971,347</u>	<u>\$ (2,132,454)</u>
Net Investment in capital assets	\$ 21,875,160	\$ 21,586,171	\$ 288,989
Restricted	405,150	908,522	(503,372)
Unrestricted	233,484	(809,900)	1,043,384
Total Net Position	<u>\$ 22,513,794</u>	<u>\$ 21,684,793</u>	<u>\$ 829,001</u>
Total Liabilities and Net Position	<u>\$ 48,352,687</u>	<u>\$ 49,656,140</u>	<u>\$ (1,303,453)</u>

Total Assets and Liabilities decreased during this period by \$1,303,453 and \$2,132,454 respectively, due, primarily, to depreciation and maturing bond obligations.

Current Assets reflect an increase in receivables. Noncurrent Assets reflect the value of equipment and infrastructure offset by accumulated depreciation.

Noncurrent Liabilities reflect payment of bonding obligations.

The following presents a summary of revenue and expense for the fiscal year ended June 30, 2013, compared to the fiscal year ended June 30, 2012.

Changes in Net Position for the Year Ended June 30

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for Services	\$ 1,366,728	\$ 1,232,607	\$ 134,121
Operating Grants and Contributions	13,488,775	13,152,321	336,454
Capital Grants and Contributions	<u>1,849,020</u>	<u>1,808,318</u>	<u>40,702</u>
Total program revenues	<u>16,704,523</u>	<u>16,193,246</u>	<u>511,277</u>
General Revenues:			
Taxes	8,336,044	7,901,288	434,756
Earnings on investments	17,604	13,655	3,949
State and formula grants	18,327,789	18,554,579	(226,790)
Gain (Loss) on retirement of assets	11,643	29,259	(17,616)
Miscellaneous	<u>59,290</u>	<u>30,667</u>	<u>28,623</u>
Total general revenues	<u>26,752,370</u>	<u>26,529,448</u>	<u>222,922</u>
Expenses			
Instruction	23,055,006	23,692,007	(637,001)
Student support services	2,028,362	2,065,483	(37,121)
Instructional support	1,601,492	2,297,340	(695,848)
District administration	1,223,323	1,464,499	(241,176)
School administration	1,824,712	1,730,567	94,145
Business support	742,441	656,033	86,408
Plant operations	3,774,195	3,931,558	(157,363)
Student transportation	3,034,629	3,195,495	(160,866)
Community services	475,958	493,333	(17,375)
Food Service Operation	3,787,583	3,247,516	540,067
Interest on long-term debt	1,057,676	1,018,140	39,536
Amortization	0	46,565	(46,565)
Other Debt Service	<u>22,515</u>	<u>19,077</u>	<u>3,438</u>
Total expenses	<u>42,627,892</u>	<u>43,857,613</u>	<u>(1,229,721)</u>
Change in Net Position	829,001	(1,134,919)	1,963,920
Beginning Net Position	<u>21,684,793</u>	<u>22,819,712</u>	<u>(1,134,919)</u>
Ending Net Position	<u>\$ 22,513,794</u>	<u>\$ 21,684,793</u>	<u>\$ 829,001</u>

COMMENTS ON BUDGET COMPARISONS

- General fund budget compared to actual revenue varied from line item to line item with an ending result of \$26,583,657 (excluding on behalf payments, which are not budgeted) or approximately .7% more than budgeted.
- The total cost of all General Fund programs and services was \$25,967,016 (excluding on behalf payments).
- General fund budget expenditures to actual varied significantly in district administration as a result of the Board establishing a contingency totaling \$871,546.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2013, the District had \$45,595,387 invested in land, buildings, and equipment. Of that amount, \$42,873,248 is in governmental activities.

See Note E for a breakdown of additions by class on page 29.

Debt Administration

The District had \$24,150,000 in bonds payable outstanding on June 30, 2013. A total of \$2,165,000 is due within one year.

See Note F on pages 30-31 for a detailed list of bonds payable.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 to June 30; other programs, i.e. some federal grants, operate on a different fiscal calendar, but are reflected in the District overall budget. By law the general fund budget must have a minimum 2% contingency. The District adopted a 2012-13 budget with \$871,546 in contingency (2.8%). The contingency decreased due to continued revenue reductions from federal and state sources and the cumulative effect of the high school technology refresh. The district implemented over \$1.2 million in mid-year budget cuts to secure its financial health. Staffing reductions and other program cuts have been implemented to offset revenue shortfalls in the current fiscal year. The beginning cash balance for the new fiscal year for all governmental and proprietary funds is \$1,370,376. Significant Board action that impacts the finances includes no salary increase for district employees, staffing reductions, reduction in bus purchases, elimination of textbook purchases, and limiting facility improvements and major purchases throughout the district.

Questions regarding this report should be directed to Kim Harrison, Superintendent at (270)328-1554 or to Ronald Mays, Director of Financial Services at (270)328-1544 or by mail at 2290 State Route 121 North, Mayfield, KY 42066.

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 1,164,137	\$ 0	\$ 1,164,137
Receivables:			
Taxes - current	356,512	0	356,512
Taxes - delinquent	20,283	0	20,283
Accounts receivable	43,764	497	44,261
Due from other funds	63,833	0	63,833
Due from school activity funds	5,585	1,474	7,059
Interest	1	0	1
Intergovernmental - state	6	0	6
Intergovernmental - federal	444,398	141,865	586,263
Prepaid expenses	15,233	0	15,233
Inventories	64,187	86,650	150,837
Total current assets	<u>2,177,939</u>	<u>230,486</u>	<u>2,408,425</u>
Noncurrent Assets:			
Capital assets	66,297,720	4,470,942	70,768,662
Less: Accumulated depreciation	<u>(23,424,472)</u>	<u>(1,748,803)</u>	<u>(25,173,275)</u>
Total noncurrent assets	<u>42,873,248</u>	<u>2,722,139</u>	<u>45,595,387</u>
Other Assets:			
Deferred bond issuance cost, net	348,875	0	348,875
Total other assets	<u>348,875</u>	<u>0</u>	<u>348,875</u>
TOTAL ASSETS	<u><u>\$ 45,400,062</u></u>	<u><u>\$ 2,952,625</u></u>	<u><u>\$ 48,352,687</u></u>
LIABILITIES :			
Current Liabilities:			
Accounts payable	\$ 237,713	\$ 13,466	\$ 251,179
Due to other funds	1,474	63,833	65,307
Due to school activity funds	2,929	20	2,949
Deferred revenue	186,250	0	186,250
Accrued interest	112,112	0	112,112
Current portion of bond obligations	2,165,000	0	2,165,000
Current portion of premium on bonds payable	10,564	0	10,564
Current portion of capital lease payable	16,442	0	16,442
Current portion of deferred loss on early debt retireme	(65,494)	0	(65,494)
Current portion of accrued sick leave	144,912	4,842	149,754
Total current liabilities	<u>2,811,902</u>	<u>82,161</u>	<u>2,894,063</u>
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	21,985,000	0	21,985,000
Noncurrent portion of capital lease payable	35,094	0	35,094
Noncurrent portion of deferred loss on early debt retire	(589,448)	0	(589,448)
Noncurrent portion of accrued sick leave	1,465,220	48,964	1,514,184
Total noncurrent liabilities	<u>22,895,866</u>	<u>48,964</u>	<u>22,944,830</u>
TOTAL LIABILITIES	<u><u>\$ 25,707,768</u></u>	<u><u>\$ 131,125</u></u>	<u><u>\$ 25,838,893</u></u>
NET POSITION:			
Net investment in capital assets	\$ 19,153,021	\$ 2,722,139	\$ 21,875,160
Restricted for:			
Construction	292,182	0	292,182
Debt service	13,607	0	13,607
Food service	0	99,361	99,361
Unrestricted	233,484	0	233,484
TOTAL NET POSITION	<u><u>\$ 19,692,294</u></u>	<u><u>\$ 2,821,500</u></u>	<u><u>\$ 22,513,794</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Net (Expense) Revenue and							
	Program Revenues				Changes in Net Position		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	\$ 23,055,006	\$ 99,188	\$ 6,906,952	\$ 1,849,020	\$ (14,199,846)	\$ 0	\$ (14,199,846)
Support Services:							
Student	2,028,362	0	543,851	0	(1,484,511)	0	(1,484,511)
Instructional Staff	1,601,492	0	895,204	0	(706,288)	0	(706,288)
District Administration	1,223,323	0	241,256	0	(982,067)	0	(982,067)
School Administration	1,824,712	0	369,611	0	(1,455,101)	0	(1,455,101)
Business	742,441	4,758	221,077	0	(516,606)	0	(516,606)
Plant operations and maintenance	3,774,195	141,408	497,162	0	(3,135,625)	0	(3,135,625)
Student transportation	3,034,629	0	465,638	0	(2,568,991)	0	(2,568,991)
Community service activities	475,958	0	463,806	0	(12,152)	0	(12,152)
Interest on long-term debt	1,057,676	0	512,874	0	(544,802)	0	(544,802)
Other debt service	22,515	0	0	0	(22,515)	0	(22,515)
Total governmental activities	38,840,309	245,354	11,117,431	1,849,020	(25,628,504)	0	(25,628,504)
Business-Type Activities:							
Food service	3,787,583	1,121,374	2,371,344	0	0	(294,865)	(294,865)
Total business-type activities	3,787,583	1,121,374	2,371,344	0	0	(294,865)	(294,865)
Total primary government	\$ 42,627,892	\$ 1,366,728	\$ 13,488,775	\$ 1,849,020	(25,628,504)	(294,865)	(25,923,369)
General Revenues:							
Taxes:							
Property					5,311,996	0	5,311,996
Motor Vehicle					927,529	0	927,529
Utilities					1,645,255	0	1,645,255
In Lieu of					451,264	0	451,264
Earnings on Investments					16,218	1,386	17,604
State and formula grants					18,327,789	0	18,327,789
Gain on retirement of assets					16,021	(4,378)	11,643
Miscellaneous					59,290	0	59,290
Transfers					32,170	(32,170)	0
Total general revenues					26,787,532	(35,162)	26,752,370
Change in net position					1,159,028	(330,027)	829,001
Net position at July 1, 2012					18,533,266	3,151,527	21,684,793
Net position at June 30, 2013					\$ 19,692,294	\$ 2,821,500	\$ 22,513,794

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND RESOURCES:				
Cash and cash equivalents	\$ 871,954	\$ 0	\$ 292,183	\$ 1,164,137
Accounts receivable:				
Taxes - current	356,512	0	0	356,512
Taxes - delinquent	20,283	0	0	20,283
Accounts receivable	43,764	0	0	43,764
Due from other funds	432,908	0	0	432,908
Due from school activity funds	5,585	0	0	5,585
Interest	1	0	0	1
Intergovernmental - state	0	6	0	6
Intergovernmental - federal	10,185	420,607	13,606	444,398
Prepaid expenses	15,233	0	0	15,233
TOTAL ASSETS AND RESOURCES	\$ 1,756,425	\$ 420,613	\$ 305,789	\$ 2,482,827
LIABILITIES AND FUND BALANCE:				
LIABILITIES:				
Accounts payable	\$ 209,540	\$ 28,173	\$ 0	\$ 237,713
Due to other funds	1,474	369,075	0	370,549
Due to school activity funds	2,745	184	0	2,929
Deferred revenue	0	23,181	0	23,181
Current portion of accrued sick leave	3,567	0	0	3,567
TOTAL LIABILITIES	217,326	420,613	0	637,939
FUND BALANCES:				
Nonspendable - prepaids	15,233	0	0	15,233
Restricted - capital projects	0	0	292,182	292,182
Restricted - debt service	0	0	13,607	13,607
Committed - sick leave	149,000	0	0	149,000
Unassigned	1,374,866	0	0	1,374,866
TOTAL FUND BALANCES	1,539,099	0	305,789	1,844,888
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,756,425	\$ 420,613	\$ 305,789	\$ 2,482,827

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
 FUNDS TO THE STATEMENT OF NET POSITION**

June 30, 2013

Total fund balance per fund financial statements		\$ 1,844,888
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$66,297,720 and the accumulated depreciation is \$23,424,472.		42,873,248
Inventories are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net position.		64,187
Certain assets related to bond issuance costs are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net position.		348,875
Advance payments received from the Murray Head Start program for building and equipment costs are not due and payable in the current period and, therefore, are not reported as liabilities in the funds, but are reported as deferred revenue in the statement of net position.		(163,069)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	\$ (24,150,000)	
Capital lease payable	(51,536)	
Accrued interest on bonds payable	(112,112)	
Premium on bonds payable	(10,564)	
Deferred loss on early retirement of debt	654,942	
Accrued sick leave payable	<u>(1,606,565)</u>	
		<u>(25,275,835)</u>
Net position for governmental activities		<u><u>\$ 19,692,294</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2013

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
From Local Sources:				
Taxes:				
Property	\$ 4,577,237	\$ 0	\$ 734,759	\$ 5,311,996
Motor Vehicle	927,529	0	0	927,529
Utilities	1,645,255	0	0	1,645,255
In Lieu of	413,990	0	0	413,990
Tuition	37,385	(18,885)	0	18,500
Earnings on Investments	16,217	0	1	16,218
Other local revenues	422,642	16,482	0	439,124
Intergovernmental - State	24,875,524	1,502,127	2,174,862	28,552,513
Intergovernmental - indirect federal	73,091	2,483,763	0	2,556,854
Intergovernmental - direct federal	0	4,014	158,405	162,419
TOTAL REVENUES	32,988,870	3,987,501	3,068,027	40,044,398
EXPENDITURES:				
Current:				
Instruction	18,887,511	2,859,364	0	21,746,875
Support Services:				
Student	1,957,120	68,361	0	2,025,481
Instructional Staff	826,645	789,521	0	1,616,166
District Administration	1,438,115	3,901	0	1,442,016
School Administration	1,819,527	0	0	1,819,527
Business	740,698	0	0	740,698
Plant operations and maintenance	3,746,887	0	0	3,746,887
Student transportation	2,927,391	0	0	2,927,391
Community service activities	24,160	463,806	0	487,966
Facilities acquisition and construction	4,175	0	0	4,175
Debt service	0	0	3,083,302	3,083,302
TOTAL EXPENDITURES	32,372,229	4,184,953	3,083,302	39,640,484
Excess (deficit) of revenues over expenditures	616,641	(197,452)	(15,275)	403,914
OTHER FINANCING SOURCES (USES):				
Sale or comp for loss of assets	16,590	0	0	16,590
Operating transfers in	183,700	216,187	1,969,768	2,369,655
Operating transfers out	(237,774)	(18,735)	(2,080,976)	(2,337,485)
TOTAL OTHER FINANCING SOURCES (USES)	(37,484)	197,452	(111,208)	48,760
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	579,157	0	(126,483)	452,674
Fund Balance, July 1, 2012	959,942	0	432,272	1,392,214
Fund Balance, June 30, 2013	\$ 1,539,099	\$ 0	\$ 305,789	\$ 1,844,888

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES**
 For the Year Ended June 30, 2013

Net change in total fund balances per fund financial statements	\$ 452,674
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$364,284 and gain from the disposal of assets of \$16,021 is exceeded by depreciation expense of (\$1,861,681) and gross proceeds from the disposal of assets of \$(16,590).	(1,497,966)
Inventories in the statement of activities differs from the amount reported in the governmental funds because inventories are recognized as an expenditure in the funds when they are purchased, and thus require the use of current financial resources. In the statement of activities, however, inventories are recognized as a current asset. This is amount of the decrease in governmental fund inventories.	(17,927)
The proceeds of capital lease obligations provide current financial resources to governmental funds, but issuing debt increase liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position. This is the amount by which capital lease proceeds exceeded repayments.	(51,536)
The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position. This is the amount of debt repayments	2,085,000
In the statement of activities, certain operating expenses are recognized when they are incurred. In the governmental funds, however, expenditures for those items are limited to only those that use current financial resources. This is the amount of the decrease in accrued sick leave	245,391
Advance payments from the Murray Head Start program for building and equipment costs are recognized as revenue in the funds when it is available. In the statement of activities, however, these advance payments are recorded as a deferred liability. This is the amount of the decrease in deferred revenue.	22,310
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount of the decrease in interest payable	9,091
The accretion of a premium on a bond issue is a use of funds in the governmental funds. This accretion reduces the related long-term liability in the statement of activities.	10,564
The amortization of bond issuance costs reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds	(98,573)
Change in net position of governmental activities	<u>\$ 1,159,028</u>
See independent auditor's report and accompanying notes to financial statements	

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Food Service Fund
	<u> </u>
ASSETS:	
Current Assets	
Accounts receivable:	
Intergovernmental - federal	\$ 141,865
Due from general fund	1,474
Other accounts receivable	497
Inventory	<u>86,650</u>
Total current assets	<u>230,486</u>
Noncurrent Assets	
Capital assets	4,470,942
Less: accumulated depreciation	<u>(1,748,803)</u>
Total noncurrent assets	<u>2,722,139</u>
TOTAL ASSETS	<u><u>\$ 2,952,625</u></u>
LIABILITIES:	
Current Liabilities	
Accounts payable	\$ 13,466
Due to governmental funds	63,833
Due to school activity funds	20
Accrued sick leave	<u>4,842</u>
Total current liabilities	<u>82,161</u>
Noncurrent Liabilities	
Accrued sick leave	<u>48,964</u>
Total noncurrent liabilities	<u>48,964</u>
Total Liabilities	<u><u>\$ 131,125</u></u>
Net Position	
Net investment in capital assets	\$ 2,722,139
Nonspendable - inventory	86,650
Restricted - food service	<u>12,711</u>
Total Net Position	<u><u>\$ 2,821,500</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the Year Ended June 30, 2013

	Food Service Fund
Operating Revenues:	
Lunchroom sales	\$ 1,068,124
Other operating revenues	53,250
Total operating revenues	<u>1,121,374</u>
Operating Expenses:	
Salaries and benefits	1,773,360
Contract services	41,056
Materials and supplies	1,783,834
Expendable equipment	73,995
Depreciation	115,338
Total operating expenses	<u>3,787,583</u>
Operating income (loss)	<u>(2,666,209)</u>
Non-Operating Revenues (Expenses):	
Federal grants	1,699,641
Donated commodities	145,891
State grants	525,812
Interest income	1,386
Total non-operating revenues	<u>2,372,730</u>
Net income (loss) before transfers	(293,479)
Gain (loss) on fixed assets	(4,378)
Transfers from other funds	21,587
Transfers to other funds	<u>(53,757)</u>
Change in net position	(330,027)
Net Position, July 1, 2012	<u>3,151,527</u>
Net Position, June 30, 2013	<u><u>\$ 2,821,500</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Food Service Fund
Cash Flows from Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 1,068,124
Other operating revenues	55,191
Cash paid to/for:	
Employees	(1,267,532)
Contract services	(41,056)
Materials and supplies	(1,664,248)
Expendable equipment	(73,995)
Other operating expenses	(53,757)
Net cash provided by (used in) operating activities	<u>(1,977,273)</u>
Cash Flows from Non-Capital Financing Activities:	
Non-operating grants received	1,605,043
Net cash provided by (used in) non-capital financing activities	<u>1,605,043</u>
Cash Flows from Capital and Related Financing Activities:	
Loans from other funds	63,833
Transfers from other funds	20,113
Purchase of assets	(166,578)
Net cash provided by (used in) capital and related financing activities	<u>(82,632)</u>
Cash Flows from Investing Activities:	
Interest income received	1,386
Net cash provided by (used in) investing activities	<u>1,386</u>
Net increase (decrease) in cash and cash equivalents	(453,476)
Cash and cash equivalents, July 1, 2012	<u>453,476</u>
Cash and cash equivalents, June 30, 2013	<u>\$ 0</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ (2,666,209)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	115,338
In-kind grant from state	501,565
Commodities used	145,891
Changes in assets and liabilities:	
Inventory	(22,883)
Accounts receivable	1,941
Accrued sick leave	4,263
Due to activity funds	20
Accounts payable	(3,442)
Net cash provided by operating activities	<u>\$ (1,977,273)</u>
Non-Cash Investing, Capital, and Financing Activities:	
Food commodities received	\$ 145,891
In-kind grant from state for benefits	501,565
Total Non-Cash Investing, Capital, and Financing Activities	<u>\$ 647,456</u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2013

	Private Purpose Trust Funds	Agency Fund
ASSETS:		
Cash and cash equivalents	\$ 173,876	\$ 531,451
Accounts receivable	2,120	8,248
Due from private purpose trust funds	0	2,519
Due from Governmental Funds	0	2,929
Due from proprietary funds	0	20
Total Assets	<u>\$ 175,996</u>	<u>\$ 545,167</u>
LIABILITIES:		
Accounts payable	\$ 6,000	\$ 29,912
Due to Governmental Funds	0	5,585
Due to student groups	2,519	509,670
Total Liabilities	<u>\$ 8,519</u>	<u>\$ 545,167</u>
NET POSITION HELD IN TRUST	<u>\$ 167,477</u>	<u>\$ 0</u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2013

	Private Purpose Trust Funds
	<u> </u>
Additions:	
Interest income	\$ 685
Other local revenue	779
Contributions received	<u>89,545</u>
Total Additions	<u>91,009</u>
 Deductions:	
Community services	<u>111,555</u>
Total Deductions	<u>111,555</u>
Change in net position	(20,546)
Net position, July 1, 2012	<u>188,023</u>
Net position, June 30, 2013	<u><u>\$ 167,477</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year ended June 30, 2013

NOTE A – REPORTING ENTITY

The Graves County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Graves County School District (“District”). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards because board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Graves County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations, nor has any influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Graves County School District Finance Corporation – In 1991, the Graves County, Kentucky, Board of Education resolved to authorize the establishment of the Graves County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The board members of the Graves County Board of Education also comprise the Corporation’s Board of Directors.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District’s accounting policies are described below.

Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District. The District does not allocate indirect expenses.

Fund Financial Statements – The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and fund balances, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resources measurement focus.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for all financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.
- (B) The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources, such as grants, donations, or gifts (other than expendable trusts or major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. It includes state, federal and private grants where unused balances are returned to the grantor at the close of the specified project periods. Project accounting codes are employed to distinguish specific revenue sources and expenditures. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 45. This is a major fund of the District.
- (C) Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets (other than those financed by Proprietary Funds). Common sources of revenue to these funds are the capital outlay allotment, building tax levies, technology allotment and sale of bonds.
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund (Enterprise) is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$145,891 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Accounting – continued

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- (A) Activity funds account for assets held by the District in a purely custodial capacity. Since Agency Funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These activity funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- (B) The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means resources are expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property Taxes

Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property within the School District. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they were levied.

The property tax rates for the year ended June 30, 2013, to finance operations were \$.375 per \$100 valuation for real property, \$.375 per \$100 valuation for business personal property and \$.464 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the District, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for revenues and expenses on the same basis as the actual financial statements, which is Generally Accepted Accounting Principles (GAAP).

Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Inventories

Inventories maintained by the District consist of expendable supplies held for consumption (paper and garage supplies in the governmental activities and food and supplies in the business-type activities). Inventories are expensed when used in the government-wide financial statements and recorded as expenditures in the governmental fund types when purchased. Inventories are stated at cost (except for donated commodity inventory, which is stated at estimated value on date of receipt) using the first-in, first-out method for both the governmental and business-type activities.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. Prepaid items at June 30, 2013 consisted of advanced web traffic reporting software paid in advance for five years.

Debt Costs

Unamortized debt issuance costs and unamortized discounts in the amount of \$348,875 are included in the government-wide statements. Both debt issuance costs and discounts are amortized over the lives of the related debt issues using the straight-line method.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. At its July, 2012 meeting the Board approved a change to its Equipment and Assets policy in order to follow guidelines developed by the Kentucky Department of Education in its latest update on January 25, 2012. The new guidelines establish a capitalization threshold of \$5,000 for real or personal property. Larger thresholds apply to buildings and building improvements and leasehold improvements. Improvements to land and to buildings in excess of the above limits are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both governmental and business-type capital assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
General equipment	10-20 years

Accumulated Unpaid Sick Leave Benefits

For those employees who qualify, the District has adopted the policy of providing at retirement a percentage of their accumulated unused sick leave. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on leave accumulated by employees who are currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future.

This entire compensated absence liability is reported in the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts, when applicable, are recorded in the account "current portion of accrued sick leave" in the general fund. The noncurrent portion of the liability is not reported.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as liabilities in the fund financial statements until due.

Fund Balance Classifications

Nonspendable fund balances are amounts that are not in a spendable form (such as prepaid expenses or inventories) or are required to be maintained intact.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which, for the District, is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows the program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts, except negative balances, that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The District considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The District does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Use of Restricted Resources

When an expense is incurred for which there are both restricted and unrestricted net position available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Impact of Recently Issued Accounting Pronouncements

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the District's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all other elements presented in a statement of financial position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2013, the District had no deferred outflows or deferred inflows of resources.

In March, 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012; therefore, this statement will affect the financial statements for the fiscal year ending June 30, 2014.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Interfund transfers between funds of the same type are eliminated in the government-wide statements. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Subsequent Events

In preparing these financial statements, management has evaluated other events and transactions for potential recognition or disclosure through November 11, 2013, the date the financial statements were available to be issued.

NOTE C – ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D – CASH AND CASH EQUIVALENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Kentucky Revised Statutes authorize the Board to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or saving and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States Government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptance for banks rated in one of the three highest categories by a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$1,869,464. The bank balance was \$3,085,383. Of the bank balance, \$628,994 was covered by Federal Depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Of the remaining balance, \$2,327,830 was uninsured and collateralized with securities held by the pledging bank's agent, in the District's name and \$128,559 was uninsured and uncollateralized.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2013

Note E - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

Governmental Activities	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Capital Assets:				
Land	\$ 1,473,208	\$ 0	\$ 0	\$ 1,473,208
Land improvements	132,157	31,918	0	164,075
Buildings and improvements	52,264,033	0	0	52,264,033
Technology equipment	2,937,000	96,791	310,379	2,723,412
Vehicles	5,811,934	226,746	162,470	5,876,210
General Equipment	3,138,229	8,829	24,279	3,122,779
Infrastructure	170,676	0	0	170,676
Property under capital lease	503,327	0	0	503,327
Totals at historical cost	<u>66,430,564</u>	<u>364,284</u>	<u>497,128</u>	<u>66,297,720</u>
Less: Accumulated depreciation				
Land improvements	39,647	6,741	0	46,388
Buildings and improvements	13,143,085	1,113,921	0	14,257,006
Technology equipment	2,492,399	161,563	310,379	2,343,583
Vehicles	3,989,645	359,621	162,470	4,186,796
General Equipment	1,858,272	211,301	23,710	2,045,863
Infrastructure	32,975	8,534	0	41,509
Property under capital lease	503,327	0	0	503,327
Total accumulated depreciation	<u>22,059,350</u>	<u>1,861,681</u>	<u>496,559</u>	<u>23,424,472</u>
Governmental Activities Capital Assets - Net	<u>\$ 44,371,214</u>	<u>\$ (1,497,397)</u>	<u>\$ 569</u>	<u>\$ 42,873,248</u>
Business-Type Activities				
Capital Assets:				
Buildings and improvements	\$ 3,147,257	\$ 0	\$ 0	\$ 3,147,257
Technology equipment	61,259	0	3,970	57,289
General Equipment	1,189,823	166,578	90,005	1,266,396
Totals at historical cost	<u>4,398,339</u>	<u>166,578</u>	<u>93,975</u>	<u>4,470,942</u>
Less: Accumulated depreciation				
Buildings and improvements	783,655	49,705	0	833,360
Technology equipment	39,919	10,393	3,970	46,342
General Equipment	899,488	55,240	85,627	869,101
Total accumulated depreciation	<u>1,723,062</u>	<u>115,338</u>	<u>89,597</u>	<u>1,748,803</u>
Business-Type Activities Capital Assets - Net	<u>\$ 2,675,277</u>	<u>\$ 51,240</u>	<u>\$ 4,378</u>	<u>\$ 2,722,139</u>

Depreciation expense was charged to governmental functions as follows:

Instructional	\$ 1,430,475
Student support	2,881
Instructional staff support	22,761
District administration	26,698
School administrative support	5,185
Business support	1,743
Plant operation and maintenance	23,133
Student transportation	348,693
Food service	112
Total depreciation expense	<u>\$ 1,861,681</u>

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE F – BONDED DEBT AND CAPITAL LEASE OBLIGATIONS

The amount shown in the accompanying government-wide financial statements as bond obligations represent the District's future obligations to make lease payments related to school building revenue bonds issued by the Graves County School District Finance Corporation on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The District, through the General Fund, SEEK Capital Outlay Fund and the Facility Support Program Levy Fund is obligated to make lease payments. The lease agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Graves County School District Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2001	\$ 6,550,000	3.400% - 4.500%
2002B	700,000	1.500% - 3.800%
2003	17,530,000	1.000% - 4.170%
2006	2,575,000	3.500% - 4.200%
2009R	1,525,000	2.500% - 3.700%
2009	9,080,000	2.100% - 6.200%
2011R	10,965,000	2.000% - 3.125%

In 1991 the District entered into a "participation agreement" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table on the following page sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

In June 2009, the District issued \$9,080,000 in School Building Revenue Bonds (Build America Bonds). The District is scheduled to receive a subsidy payment from the federal government equal to thirty-five percent of each interest payment on the Build America Bonds; however, sequestration cuts lowered the actual amount received in the current year. The subsidy payment is included in revenue and interest expense on the financial statements. The scheduled payments are disclosed on the following page.

On September 1, 2011, the District issued bonds to advance refund on June 1, 2013 the outstanding 2003 School Building Revenue Bonds that were scheduled to mature on or after June 1, 2015. In the Statement of Net Position, the net costs associated with the early retirement of the issues are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease to the book value of the debt issued to finance the refunding. Total deferred costs were \$785,930. Amortization for the year was \$65,494 and is included as a component of interest expense.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE F – BONDED DEBT AND CAPITAL LEASE OBLIGATIONS – CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service (principal and interest) are as follows:

Year	Graves County School District			Kentucky School Facility Construction Commission		Total
	Principal	Interest	Federal Subsidy	Principal	Interest	
2013-2014	\$ 1,539,966	\$ 589,649	\$ (163,272)	\$ 625,034	\$ 333,454	\$ 2,924,831
2014-2015	1,595,928	531,371	(160,052)	589,072	310,937	2,867,256
2015-2016	1,361,810	495,560	(156,440)	473,190	292,052	2,466,172
2016-2017	1,382,415	459,634	(148,904)	492,585	273,976	2,459,706
2017-2018	1,411,924	422,866	(140,961)	508,076	254,247	2,456,152
2018-2019	1,440,850	385,119	(132,680)	529,150	233,653	2,456,092
2019-2020	1,473,751	342,747	(123,419)	551,249	211,428	2,455,756
2020-2021	1,505,250	293,642	(113,717)	374,750	187,241	2,247,166
2021-2022	1,547,037	240,320	(103,642)	392,963	169,027	2,245,705
2022-2023	1,592,630	185,137	(92,883)	412,370	149,620	2,246,874
2023-2024	420,886	126,469	(81,526)	334,114	128,761	928,704
2024-2025	426,865	103,712	(69,343)	353,135	109,740	924,109
2025-2026	436,548	80,470	(56,743)	373,452	89,422	923,149
2026-2027	307,378	56,550	(43,509)	342,622	67,761	730,802
2027-2028	301,136	37,492	(29,404)	363,864	46,518	719,606
2028-2029	303,577	18,822	(14,973)	386,423	23,958	717,807
	<u>\$ 17,047,951</u>	<u>\$ 4,369,560</u>	<u>\$ (1,631,468)</u>	<u>\$ 7,102,049</u>	<u>\$ 2,881,795</u>	<u>\$ 29,769,887</u>

Interest incurred and charged to expense for fiscal year ended June 30, 2013, was \$1,057,676, which includes \$158,618 received from the Build America bond federal subsidy.

A summary of changes in long-term debt is as follows:

Type	Balance June 30, 2012	Increase	Decrease	Balance June 30, 2013
Bonds payable	\$ 26,235,000	\$ 0	\$ 2,085,000	\$ 24,150,000
Capital lease	0	67,282	15,746	51,536
Premium on bonds	21,128	0	10,564	10,564
Accrued sick leave - governmental	1,698,806	0	233,586	1,465,220
Accrued sick leave - business-type	45,084	3,880	0	48,964
Totals	<u>\$ 28,000,018</u>	<u>\$ 71,162</u>	<u>\$ 2,344,896</u>	<u>\$ 25,726,284</u>

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE G – RETIREMENT PLANS

Plan Descriptions

The Graves County School District contributes to the Teachers' Retirement System of Kentucky (KTRS) and the County Employee's Retirement System (CERS), both cost-sharing, multiple employer defined benefit pension plans. Certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS. Both plans administer retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

The Kentucky Revised Statutes provided for the establishment of both systems and benefit amendments are authorized by the State legislature. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. The KTRS report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>. The CERS report can be obtained by writing to Kentucky Employee's Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601.

Funding Policy

Contribution rates are established by KRS. Members of KTRS are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.105%. Plan members of CERS are required to contribute 5% of their annual covered salary, and the Graves County School District provides a contribution of 19.55% of that salary. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed to a health insurance account.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, three and one half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and three quarters percent (.75%) is paid from state appropriation and one percent (1.00%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE G – RETIREMENT PLANS – CONTINUED

The Graves County School District's total payroll for the year was \$24,094,133. The payroll for employees covered under KTRS was \$18,284,898 and for CERS was \$5,536,601. For the year ended June 30, 2013, the Commonwealth contributed \$2,250,080 to KTRS for the benefit of participating employees. The District's contributions to KTRS for the year ended June 30, 2013 was \$181,959, which represents those employees covered by federal programs. The contribution requirement and the amount contributed to CERS for the year ended June 30, 2012 was \$1,328,297 which consisted of \$1,049,763 from the Board and \$278,534 from the employees. The contributions required and paid to CERS for the years ended June 30, 2012 and 2011 were \$1,298,824 and \$1,188,134, respectively.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE H – BENEFITS FUNDED BY KENTUCKY STATE DEPARTMENT OF EDUCATION

The Kentucky Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2013:

Contributions to Kentucky Teachers' Retirement System	\$ 2,250,080
Technology	102,523
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	<u>4,554,175</u>
Total	<u>\$ 6,906,778</u>

These payments are recorded in the General and Food Service Funds as revenues and expenditures. The District is not legally responsible for these contributions. These payments are not required to be budgeted by the District.

On-behalf contributions were charged to governmental functions as follows:

Instruction	\$ 4,090,779
Support services:	
Student	475,490
Instructional staff	105,683
District administration	237,355
School administration	369,611
Business	221,077
Plant operations and maintenance	497,162
Student transportation	408,056
Food services	<u>501,565</u>
Total	<u>\$ 6,906,778</u>

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE I – COMMITMENTS AND CONTINGENCIES

Grant Contingencies

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Insurance Contingencies

As noted below, the District has participated in the Kentucky School Boards Insurance Trust (KSBIT) public entity risk pool. In January 2013, officials for KSBIT announced the dissolution of the trust, as well as their plans to collect the accumulated deficit by assessing each of the school districts that procured general liability, property, and workers compensation insurance coverage from KSBIT in the deficit years. Any school district which was a policy holder in the workers compensation pool from 1990 to 2011, and any district which was a policy holder in the property and general liability pool from 1993 to 2011, are subject to the assessment. The formula for the assessment is based upon the school district's length of service in KSBIT, the premiums paid, and the numbers of claims made that were attributable to the school district. KSBIT has submitted a plan to the Kentucky Department of Insurance using a novation option, under which a highly rated reinsurer would assume all of the liabilities of KSBIT and its members for claims for a set amount and would continue making claims payments. The Kentucky Department of Insurance has not yet approved this plan. Until the plan is approved, no assessment will be finalized. Estimated amounts for the District based on the novation plan total approximately \$734,000. The high estimate is approximately \$737,000, while the best estimate is approximately \$641,000. It is anticipated that districts will have the option of making a lump-sum payment of the assessment or using bond financing for up to twenty years.

NOTE J – INSURANCE AND RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, property and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. This public entity risk pool operates as a common risk management and insurance program for all school boards and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to the fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. As noted above, KSBIT has announced the dissolution of the trust.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE L – LEASE AGREEMENT

The District ("Lessor") entered into a lease agreement with the Murray Head Start Program ("Lessee"), whereby the lessee agreed to pay the lessor \$212,000 as an advance for the term of the lease. These funds were received by the District in fiscal year ended June 30, 2004 and were reported as current revenue in the General Fund financial statements and deferred revenue in the government-wide financial statements.

The initial term of the lease agreement began on August 1, 2004, and ended on July 31, 2005. It is automatically renewable for 29 consecutive one year options at no additional cost. Under its terms, the lessor shall provide space including maintenance, utilities, insurance, and custodial services, for all children participating in the Murray Head Start Program. The intent of the parties is for the Murray Head Start Program to conduct activities over the stated 29 year period. Accordingly, rental income is being recognized annually over this period of time.

NOTE M – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. The General Fund had \$1,184,382 less in expenditures than appropriations when excluding on-behalf payments of \$6,405,213 which are not required to be budgeted.

NOTE N - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General Fund	Special Revenue	Technology Match	\$ 216,187
Operating	Special Revenue	General Fund	Indirect Cost	18,735
Operating	Capital Outlay	Debt Service	Debt Service	369,520
Operating	FSPK	Debt Service	Debt Service	1,600,248
Operating	Construction	General Fund	Capital Spending	111,208
Operating	General Fund	Food Service	Revenue assistance	21,587
Operating	Food Service	General Fund	Indirect Cost	53,757

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2013

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2013 consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Special Revenue Fund	\$ 369,075	\$ 0
Food Service Fund	63,833	1474
Agency Fund	5,585	2,745
Special Revenue Fund:		
General Fund	0	369,075
Agency Fund	0	184
Food Service Fund:		
General Fund	1474	63,833
Agency Fund	0	20
Agency Fund:		
General Fund	2,745	5,585
Special Revenue Fund	184	0
Food Service Fund	20	0
Private Purpose Trust Fund	2,519	0
Private Purpose Trust Fund:		
Agency Fund	0	2,519

REQUIRED SUPPLEMENTARY INFORMATION

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES:				
From Local Sources:				
Taxes:				
Property	\$ 4,519,751	\$ 4,519,751	\$ 4,577,237	\$ 57,486
Motor Vehicle	890,000	890,000	927,529	37,529
Utilities	1,625,865	1,625,865	1,645,255	19,390
In Lieu of	414,000	414,000	413,990	(10)
Tuition	0	0	37,385	37,385
Earnings on Investments	15,000	15,000	16,217	1,217
Other local revenues	429,845	429,845	422,642	(7,203)
Intergovernmental - State	18,459,314	18,459,314	24,875,524	6,416,210
Intergovernmental - Federal	50,000	50,000	73,091	23,091
TOTAL REVENUES	26,403,775	26,403,775	32,988,870	6,585,095
EXPENDITURES:				
Current:				
Instruction	14,928,691	14,928,691	18,887,511	(3,958,820)
Support Services:				
Student	1,480,630	1,480,630	1,957,120	(476,490)
Instructional Staff	797,939	797,939	826,645	(28,706)
District Administration	2,048,476	2,048,476	1,438,115	610,361
School Administration	1,447,765	1,447,765	1,819,527	(371,762)
Business	526,976	526,976	740,698	(213,722)
Plant operations and maintenance	3,224,449	3,224,449	3,746,887	(522,438)
Student transportation	2,647,617	2,647,617	2,927,391	(279,774)
Community services	44,680	44,680	24,160	20,520
Facilities acquisition and construction	4,175	4,175	4,175	0
Debt service	0	0	0	0
TOTAL EXPENDITURES	27,151,398	27,151,398	32,372,229	(5,220,831)
Excess (deficit) of revenues over expenditures	(747,623)	(747,623)	616,641	1,364,264
OTHER FINANCING SOURCES (USES):				
Sale or comp for loss of assets		0	16,590	16,590
Operating transfers in	178,328	178,328	183,700	5,372
Operating transfers out	(241,197)	(241,197)	(237,774)	3,423
TOTAL OTHER FINANCING SOURCES (USES)	(62,869)	(62,869)	(37,484)	25,385
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(810,492)	(810,492)	579,157	1,389,649
Fund Balance, July 1, 2012	810,492	810,492	959,942	149,450
Fund Balance, June 30, 2013	\$ 0	\$ 0	\$ 1,539,099	\$ 1,539,099

See independent auditor's report and accompanying notes to financial statements

NOTE: The on-behalf payments of \$6,405,213 from the state are included in both revenues and expenditures in the actual column;
however, this amount was not required to be included in the budget.

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES:				
From Local Sources:				
Tuition	\$ 0	\$ 0	\$ (18,885)	\$ (18,885)
Other local revenues	11,000	5,000	16,482	11,482
Intergovernmental - State	1,452,279	1,452,279	1,502,127	49,848
Intergovernmental - Indirect federal	2,661,665	2,661,665	2,483,763	(177,902)
Intergovernmental - direct federal	0	0	4,014	4,014
TOTAL REVENUES	4,124,944	4,118,944	3,987,501	(131,443)
EXPENDITURES:				
Current:				
Instruction	2,928,056	2,928,056	2,859,364	68,692
Support Services:				
Student support services	92,993	92,993	68,361	24,632
Instructional Staff	821,538	821,538	789,521	32,017
District administration	0	0	3,901	(3,901)
Community service activities	484,172	478,172	463,806	14,366
TOTAL EXPENDITURES	4,326,759	4,320,759	4,184,953	135,806
Excess (deficit) of revenues over expenditures	(201,815)	(201,815)	(197,452)	4,363
OTHER FINANCING SOURCES (USES):				
Operating transfers in	220,548	220,548	216,187	(4,361)
Operating transfers out	(18,733)	(18,733)	(18,735)	(2)
TOTAL OTHER FINANCING SOURCES (USES)	201,815	201,815	197,452	(4,363)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	0	0	0	0
Fund Balance, July 1, 2012	0	0	0	0
Fund Balance, June 30, 2013	\$ 0	\$ 0	\$ 0	\$ 0

See independent auditor's report and accompanying notes to financial statements

OTHER SUPPLEMENTARY INFORMATION

GRAVES COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS AND RESOURCES:					
Cash and cash equivalents	\$ 53,119	\$ 0	\$ 239,063	\$ 1	\$ 292,183
Accounts receivable					
Intergovernmental - direct federal	0	0	0	13,606	13,606
TOTAL ASSETS AND RESOURCES	<u>\$ 53,119</u>	<u>\$ 0</u>	<u>\$ 239,063</u>	<u>\$ 13,607</u>	<u>\$ 305,789</u>
LIABILITIES AND FUND BALANCE:					
LIABILITIES:					
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
EQUITY AND FUND BALANCES:					
Restricted:					
SFCC Escrow	53,119	0	0	0	53,119
Construction projects	0	0	239,063	0	239,063
Debt service	0	0	0	13,607	13,607
TOTAL FUND BALANCES	<u>53,119</u>	<u>0</u>	<u>239,063</u>	<u>13,607</u>	<u>305,789</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,119</u>	<u>\$ 0</u>	<u>\$ 239,063</u>	<u>\$ 13,607</u>	<u>\$ 305,789</u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:					
From Local Sources:					
Taxes:					
Property	\$ 0	\$ 734,759	\$ 0	\$ 0	\$ 734,759
Earnings on Investments	0	0	0	1	1
Intergovernmental - State	422,639	797,307	0	954,916	2,174,862
Intergovernmental - direct federal	0	0	0	158,405	158,405
TOTAL REVENUES	<u>422,639</u>	<u>1,532,066</u>	<u>0</u>	<u>1,113,322</u>	<u>3,068,027</u>
EXPENDITURES:					
Debt service	0	0	0	3,083,302	3,083,302
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,083,302</u>	<u>3,083,302</u>
Excess (deficit) of revenues over expenditures	<u>422,639</u>	<u>1,532,066</u>	<u>0</u>	<u>(1,969,980)</u>	<u>(15,275)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	0	0	0	1,969,768	1,969,768
Operating transfers out	<u>(369,520)</u>	<u>(1,600,248)</u>	<u>(111,208)</u>	<u>0</u>	<u>(2,080,976)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(369,520)</u>	<u>(1,600,248)</u>	<u>(111,208)</u>	<u>1,969,768</u>	<u>(111,208)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	53,119	(68,182)	(111,208)	(212)	(126,483)
Fund Balance, July 1, 2012	0	68,182	350,271	13,819	432,272
Fund Balance, June 30, 2013	<u>\$ 53,119</u>	<u>\$ 0</u>	<u>\$ 239,063</u>	<u>\$ 13,607</u>	<u>\$ 305,789</u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**
DEBT SERVICE FUNDS
For the Year Ended June 30, 2013

	2001 BONDS FUND	2002 BONDS FUND	2003 BONDS FUND
REVENUES:			
From local sources:			
Earnings on investments	\$ 0	\$ 0	\$ 0
Intergovernmental - State	192,224	0	66,623
Build America Bond refund	0	0	0
	<u>192,224</u>	<u>0</u>	<u>66,623</u>
TOTAL REVENUES			
	<u>192,224</u>	<u>0</u>	<u>66,623</u>
EXPENDITURES:			
Debt Service:			
Principal	670,000	65,000	745,000
Interest	75,805	6,094	52,093
	<u>745,805</u>	<u>71,094</u>	<u>797,093</u>
TOTAL EXPENDITURES			
	<u>745,805</u>	<u>71,094</u>	<u>797,093</u>
Excess (deficit) of revenues over expenditures	<u>(553,581)</u>	<u>(71,094)</u>	<u>(730,470)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	553,581	71,094	730,470
	<u>553,581</u>	<u>71,094</u>	<u>730,470</u>
TOTAL OTHER FINANCING SOURCES (USES)			
	<u>553,581</u>	<u>71,094</u>	<u>730,470</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	0	0	0
Fund balance July 1, 2012	<u>0</u>	<u>0</u>	<u>0</u>
Fund balance June 30, 2013	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

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2006 BONDS FUND	2009R BONDS FUND	2009 BONDS FUND	2011 BONDS FUND	Totals Debt service Fund
\$ 1	\$ 0	\$ 0	\$ 0	\$ 1
52,494	195,690	415,394	32,491	954,916
0	0	158,405	0	158,405
52,495	195,690	573,799	32,491	1,113,322
100,000	150,000	225,000	130,000	2,085,000
78,690	45,690	473,805	266,125	998,302
178,690	195,690	698,805	396,125	3,083,302
(126,195)	0	(125,006)	(363,634)	(1,969,980)
126,196	0	124,793	363,634	1,969,768
126,196	0	124,793	363,634	1,969,768
1	0	(213)	0	(212)
0	0	13,819	0	13,819
\$ 1	\$ 0	\$ 13,606	\$ 0	\$ 13,607

GRAVES COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET--SCHOOL ACTIVITY FUNDS
June 30, 2013

	Central Elementary	Cuba Elementary	Fancy Farm Elementary	Farmington Elementary	Lowes Elementary
ASSETS:					
Cash and cash equivalents	\$ 24,370	\$ 12,960	\$ 18,616	\$ 14,444	\$ 19,420
Accounts Receivable	148	0	0	250	0
Due from private purpose trust funds	0	0	0	240	0
Due from Governmental Funds	133	0	0	0	46
Due from proprietary funds	0	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 TOTAL ASSETS	 <u>\$ 24,651</u>	 <u>\$ 12,960</u>	 <u>\$ 18,616</u>	 <u>\$ 14,934</u>	 <u>\$ 19,466</u>
LIABILITIES:					
Accounts Payable	\$ 408	\$ 0	\$ 165	\$ 0	\$ 0
Due to Governmental Funds	2,436	0	0	0	0
Due to Student Groups	21,807	12,960	18,451	14,934	19,466
	<u>21,807</u>	<u>12,960</u>	<u>18,451</u>	<u>14,934</u>	<u>19,466</u>
TOTAL LIABILITIES	<u>\$ 24,651</u>	<u>\$ 12,960</u>	<u>\$ 18,616</u>	<u>\$ 14,934</u>	<u>\$ 19,466</u>
 NET POSITION HELD IN TRUST	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>

See independent auditor's report and accompanying notes to financial statements

Sedalia Elementary	Symsonia Elementary	Wingo Elementary	Graves County Middle School	Graves County High School	Totals (Memorandum Only)
\$ 2,546	\$ 51,459	\$ 5,667	\$ 45,274	\$ 336,695	\$ 531,451
0	0	60	3,538	4,252	8,248
0	0	0	704	1,575	2,519
0	0	0	138	2,612	2,929
0	0	0	0	20	20
<u>\$ 2,546</u>	<u>\$ 51,459</u>	<u>\$ 5,727</u>	<u>\$ 49,654</u>	<u>\$ 345,154</u>	<u>\$ 545,167</u>
\$ 0	\$ 0	\$ 22	\$ 2,259	\$ 27,058	\$ 29,912
0	30	0	270	2,849	5,585
2,546	51,429	5,705	47,125	315,247	509,670
<u>\$ 2,546</u>	<u>\$ 51,459</u>	<u>\$ 5,727</u>	<u>\$ 49,654</u>	<u>\$ 345,154</u>	<u>\$ 545,167</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

GRAVES COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS
For the Year Ended June 30, 2013

	Central Elementary	Cuba Elementary	Fancy Farm Elementary	Farmington Elementary	Lowes Elementary
REVENUES:					
From local sources:					
Earnings on Investments	\$ 6	\$ 0	\$ 36	\$ 22	\$ 2
Student activities	<u>87,502</u>	<u>22,285</u>	<u>44,840</u>	<u>44,821</u>	<u>57,801</u>
Total Revenues	<u>87,508</u>	<u>22,285</u>	<u>44,876</u>	<u>44,843</u>	<u>57,803</u>
EXPENDITURES					
Student Activities	<u>92,292</u>	<u>15,826</u>	<u>46,986</u>	<u>42,941</u>	<u>61,642</u>
Total expenditures	<u>92,292</u>	<u>15,826</u>	<u>46,986</u>	<u>42,941</u>	<u>61,642</u>
Excess (deficit) of revenues over expenditures	(4,784)	6,459	(2,110)	1,902	(3,839)
Due to student groups, July 1, 2012	26,591	6,501	20,561	13,032	23,305
Due to student groups, June 30, 2013	<u>\$ 21,807</u>	<u>\$ 12,960</u>	<u>\$ 18,451</u>	<u>\$ 14,934</u>	<u>\$ 19,466</u>

See independent auditor's report and accompanying notes to financial statements

Sedalia Elementary	Symsonia Elementary	Wingo Elementary	Graves County Middle School	Graves County High School	Totals (Memorandum only)
\$ 2	\$ 10	\$ 6	\$ 52	\$ 151	\$ 287
64,928	48,989	49,816	202,907	1,015,946	1,639,835
64,930	48,999	49,822	202,959	1,016,097	1,640,122
66,143	47,390	50,609	188,581	1,032,826	1,645,236
66,143	47,390	50,609	188,581	1,032,826	1,645,236
(1,213)	1,609	(787)	14,378	(16,729)	(5,114)
3,759	49,820	6,492	32,747	331,976	514,784
\$ 2,546	\$ 51,429	\$ 5,705	\$ 47,125	\$ 315,247	\$ 509,670

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS & DUE TO STUDENT GROUPS
Graves County High School
For the Year Ended June 30, 2013

	Cash Balance			Cash Balance	Accounts	Accounts	Due to
	July 1, 2012	Receipts	Disbursements	June 30, 2013	Receivable	Payable	Student Groups
							June 30, 2013
General Administrative	\$ 1,104.19	\$ 26,169.64	\$ 22,138.37	\$ 5,135.46	\$ 1,997.11	\$ 201.29	\$ 6,931.28
Credit Recovery	6,900.00	2,512.00	8,397.00	1,015.00	373.00	0.00	1,388.00
Youth Service Center	331.00	400.00	577.22	153.78	0.00	0.00	153.78
Graves County Board of Ed	0.00	980.12	980.12	0.00	0.00	0.00	0.00
School Culture	3,503.95	0.00	3,503.95	0.00	0.00	0.00	0.00
School Security	15.00	0.00	0.00	15.00	0.00	0.00	15.00
Counselors Activity	539.43	0.00	0.00	539.43	0.00	0.00	539.43
Senior Fees	755.69	11,725.00	12,462.95	17.74	0.00	0.00	17.74
West Nest	490.28	0.00	490.28	0.00	0.00	0.00	0.00
AP Funds	6,681.85	2,615.51	2,764.88	6,532.48	0.00	471.81	6,060.67
Book Rent	18,365.51	126.19	7,708.94	10,782.76	0.00	0.00	10,782.76
Lost & Damaged Books	2,795.40	1,430.23	594.55	3,631.08	25.00	0.00	3,656.08
Testing Fees	3,350.26	30,399.75	25,980.76	7,769.25	0.00	0.00	7,769.25
Science - Field Trips	109.59	150.41	149.22	110.78	0.00	0.00	110.78
Language Arts - Field	205.17	0.00	0.00	205.17	0.00	0.00	205.17
Calculator Rental	8,981.24	4,573.00	1,949.06	11,605.18	0.00	0.00	11,605.18
Senior Focus - Field Trips	399.00	2,190.00	2,139.26	449.74	0.00	0.00	449.74
FAHS Activity Fund	19.33	0.00	0.00	19.33	0.00	0.00	19.33
Student Concessions	66,241.48	56,620.35	56,932.34	65,929.49	1,000.00	2,884.58	64,044.91
Staff Concessions	10,760.59	25,095.45	4,853.58	31,002.46	0.00	0.00	31,002.46
General (Fees)	1,961.44	45,357.95	20,907.84	26,411.55	1,400.00	15,216.66	12,594.89
Bank Charges	5,861.36	126.80	4,458.28	1,529.88	0.00	0.00	1,529.88
Bingo	0.33	0.00	0.00	0.33	0.00	0.00	0.33
Performing Arts Center	3,913.32	4,355.00	4,742.36	3,525.96	0.00	0.00	3,525.96
Athletic Administration	0.00	7,153.99	7,153.99	0.00	0.00	0.00	0.00
Athletic Reserves	3,817.22	28,595.00	24,265.61	8,146.61	0.00	0.00	8,146.61
General Athletics	0.00	8,763.82	8,763.82	0.00	0.00	0.00	0.00
Tournament Account	0.00	49,084.63	38,761.83	10,322.80	0.00	0.00	10,322.80
Sports Revenue	0.00	116,507.62	116,507.62	0.00	0.00	0.00	0.00
Special Projects	0.00	144,460.43	144,307.77	152.66	580.75	137.50	595.91
Personal Seat License	1,440.00	0.00	1,440.00	0.00	0.00	0.00	0.00
Baseball	3,642.21	22,139.88	25,782.09	0.00	0.00	0.00	0.00
Boys Basketball	963.71	26,104.03	27,067.74	0.00	66.00	66.00	0.00
Elementary Basketball	0.00	61,356.69	61,356.69	0.00	0.00	0.00	0.00
Girls Basketball	453.91	22,928.63	23,382.54	0.00	0.00	0.00	0.00
Cheerleaders	8,221.72	45,317.02	46,769.17	6,769.57	200.00	5,785.00	1,184.57
Cross Country	1,389.03	6,003.95	4,994.24	2,398.74	0.00	0.00	2,398.74
Feds	205.14	3,391.45	3,271.59	325.00	0.00	0.00	325.00
Football	430.48	41,602.07	42,032.55	0.00	0.00	0.00	0.00
Football (Elem/Mid)	6,512.39	33,009.59	33,809.96	5,712.02	0.00	0.00	5,712.02
Golf	5,037.62	8,136.20	10,913.42	2,260.40	0.00	0.00	2,260.40
Girls Soccer	3,477.14	7,774.24	7,122.73	4,128.65	0.00	0.00	4,128.65
Boys Soccer	6,742.98	10,401.44	10,732.64	6,411.78	0.00	2,810.00	3,601.78
Softball	3,429.68	10,478.84	11,935.39	1,973.13	0.00	0.00	1,973.13
Swim Team	662.47	1,034.55	1,039.95	657.07	0.00	0.00	657.07
Tennis	2,191.48	3,732.80	5,118.67	805.61	0.00	0.00	805.61
Track	2,780.99	5,542.16	5,724.68	2,598.47	0.00	0.00	2,598.47
Bowling	2,311.47	11,615.91	7,473.97	6,453.41	0.00	0.00	6,453.41
Volleyball	5,442.46	23,069.01	21,756.03	6,755.44	175.00	30.00	6,900.44
Archery	0.00	2,912.82	2,912.82	0.00	0.00	0.00	0.00
Wrestling	347.64	10,043.67	7,876.00	2,515.31	0.00	0.00	2,515.31
Academic Team	70.87	2,670.61	2,582.72	158.76	0.00	0.00	158.76
Agape Club	389.07	520.00	860.02	49.05	0.00	0.00	49.05
Art	0.00	222.76	40.44	182.32	0.00	0.00	182.32
Beta Club	909.43	1,731.26	1,910.19	730.50	0.00	0.00	730.50
Bookstore	12,383.73	13,427.39	15,911.54	9,899.58	0.00	0.00	9,899.58
Drama	584.78	3,927.00	2,869.37	1,642.41	0.00	0.00	1,642.41
JKG	1,703.76	0.00	0.00	1,703.76	0.00	0.00	1,703.76
Calculus Club	156.05	0.00	0.00	156.05	0.00	0.00	156.05
FBLA	625.34	17,532.26	18,157.60	0.00	1,192.40	836.11	356.29
DECA	404.20	23,939.68	24,080.71	263.17	0.00	0.00	263.17
FCA	266.48	1,235.63	961.83	540.28	0.00	0.00	540.28
Chess Club	152.21	1,888.84	1,600.56	440.49	0.00	0.00	440.49
Subtotals	220,431.07	993,083.27	952,979.45	260,534.89	7,009.26	28,438.95	239,105.20

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY HIGH SCHOOL - ALL FUNDS COMBINED
STATEMENT OF RECEIPTS, DISBURSEMENTS & FUND BALANCE
For the Year Ended June 30, 2013

	Cash Balance			Cash Balance	Accounts	Accounts	Due to
	July 1, 2012	Receipts	Disbursements	June 30, 2013	Receivable	Payable	Student Groups
							June 30, 2013
Curtain Call	\$ 1,001.91	\$ 8,083.19	\$ 8,018.40	\$ 1,066.70	\$ 0.00	\$ 0.00	\$ 1,066.70
FFA	13,014.86	50,376.36	53,257.95	10,133.27	0.00	84.00	10,049.27
Equine	12,177.65	7,379.00	10,490.91	9,065.74	0.00	0.00	9,065.74
Future Educators of America	63.07	147.24	16.00	194.31	0.00	0.00	194.31
FCCLA	4,282.55	13,709.95	14,381.19	3,611.31	0.00	0.00	3,611.31
STOP	699.37	0.00	0.00	699.37	0.00	0.00	699.37
Horticulture	533.18	18,536.90	14,651.40	4,418.68	963.00	25.00	5,356.68
Engineering Club	245.84	328.38	202.64	371.58	0.00	0.00	371.58
Interact Club	3,079.91	0.00	500.00	2,579.91	0.00	0.00	2,579.91
Foreign Language - French	319.30	0.00	0.00	319.30	0.00	0.00	319.30
Library	1,270.51	3,793.75	3,735.66	1,328.60	0.00	0.00	1,328.60
Math Club	1.83	0.00	0.00	1.83	0.00	0.00	1.83
Newspaper	1,108.89	4,259.26	5,368.15	0.00	0.00	0.00	0.00
Key Club	0.00	125.00	115.00	10.00	0.00	0.00	10.00
Pep Club	0.00	496.50	429.77	66.73	0.00	0.00	66.73
Prom	2,344.95	7,349.00	8,548.83	1,145.12	0.00	0.00	1,145.12
Science Club	1,020.93	258.07	330.16	948.84	0.00	0.00	948.84
Forensics (Speech)	1,594.42	3,101.58	4,696.00	0.00	0.00	0.00	0.00
STLP	0.00	152.00	152.00	0.00	0.00	0.00	0.00
Student Council	0.00	934.51	900.56	33.95	0.00	0.00	33.95
Chemistry/NWEA	0.00	2,622.92	1,116.00	1,506.92	0.00	0.00	1,506.92
Spanish Club	755.32	1,668.60	1,253.03	1,170.89	0.00	13.00	1,157.89
GCHS Special Olympics	52.74	0.00	0.00	52.74	0.00	0.00	52.74
WGCE	2,880.46	6,462.02	2,189.72	7,152.76	55.00	0.00	7,207.76
Science Department	0.00	904.42	904.42	0.00	358.92	0.00	358.92
Yearbook	0.00	67,422.10	67,422.10	0.00	0.00	0.00	0.00
Young Democrats	74.15	0.00	0.00	74.15	0.00	0.00	74.15
Young Republicans	211.50	0.00	0.00	211.50	0.00	0.00	211.50
Agriculture	123.24	2,343.01	1,730.95	735.30	0.00	67.70	667.60
AP Music Theory Fee	380.00	130.00	446.59	63.41	0.00	0.00	63.41
Art	518.21	2,889.50	2,147.04	1,260.67	0.00	0.00	1,260.67
Anatomy & Physiology	540.67	488.00	978.51	50.16	0.00	0.00	50.16
Astronomy	95.35	0.00	95.35	0.00	0.00	0.00	0.00
Business Principles	0.00	75.00	62.50	12.50	0.00	0.00	12.50
Advance Computer Tech	755.50	555.00	173.51	1,136.99	0.00	0.00	1,136.99
Instrument Maintenance	1,001.41	779.59	1,781.00	0.00	0.00	0.00	0.00
Sports & Event Mgt	0.00	8,320.00	7,992.00	328.00	0.00	0.00	328.00
Prin of & Fashion Mkt	735.24	489.00	1,057.19	167.05	0.00	0.00	167.05
Eng Design/Prin Eng	1,178.73	1,250.00	1,840.26	588.47	0.00	456.40	132.07
GC Publishing	62.05	478.06	359.15	180.96	0.00	0.00	180.96
Band	0.00	12,734.35	12,734.35	0.00	6.00	6.00	0.00
Culinary Class	329.58	97.00	0.00	426.58	0.00	0.00	426.58
Choir Class Fees	90.33	2,118.78	2,209.11	0.00	0.00	0.00	0.00
Choral	419.12	708.54	1,127.66	0.00	0.00	0.00	0.00
Environmental Science	262.50	75.00	15.00	322.50	0.00	0.00	322.50
Heart of the Purchase	242.96	0.00	0.00	242.96	0.00	0.00	242.96
Home Economics	589.47	6,328.27	4,745.19	2,172.55	26.00	0.00	2,198.55
Special Life Skills	646.22	5,739.67	2,792.14	3,593.75	0.00	0.00	3,593.75
Social Studies	436.35	0.00	436.35	0.00	0.00	0.00	0.00
Physics	140.00	0.00	0.00	140.00	0.00	0.00	140.00
Industrial Arts	28.42	999.50	926.00	101.92	0.00	101.92	0.00
Language Arts Books	3,094.32	693.81	444.20	3,343.93	6.00	0.00	3,349.93
Photojournalism	1,007.74	0.00	0.00	1,007.74	0.00	0.00	1,007.74
Photography	167.00	821.50	106.40	882.10	0.00	0.00	882.10
Foreign Language Fees	6,331.13	9,630.00	8,880.84	7,080.29	0.00	74.39	7,005.90
Orchestra	4,518.97	14,842.85	14,477.49	4,884.33	35.00	639.25	4,280.08
Science Novels	363.21	58.00	411.21	10.00	0.00	0.00	10.00
Project Lead the Way	304.29	800.00	188.79	915.50	0.00	0.00	915.50
ROTC	0.00	1,575.00	1,227.22	347.78	0.00	0.00	347.78
Best in the Nest	0.00	200.00	200.00	0.00	0.00	0.00	0.00
Community Service	1,303.41	0.00	1,303.41	0.00	0.00	0.00	0.00
Savings	17,698.25	80.01	17,778.26	0.00	0.00	0.00	0.00
Relay for Life	0.00	5,751.38	5,751.38	0.00	0.00	0.00	0.00
Subtotal	90,097.01	279,161.57	293,098.94	76,159.64	1,449.92	1,467.66	76,141.90
Previous page subtotal	220,431.07	993,083.27	952,979.45	260,534.89	7,009.26	28,438.95	239,105.20
Less: Interfund Transfers	0.00	(226,518.75)	(226,518.75)	0.00	0.00	0.00	0.00
Total	\$ 310,528.08	\$ 1,045,726.09	\$ 1,019,559.64	\$ 336,694.53	\$ 8,459.18	\$ 29,906.61	\$ 315,247.10

REPORTS REQUIRED BY THE SINGLE AUDIT ACT

GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Education:</u>			
Fund for the Improvement of Education	84.215	S215L060089	\$ 4,014
Passed Through State Dept. of Education:			
Special Education Grants to States	84.027	3810002-12	881,852
Special Education Preschool Grants	84.173	3800002-13 & 12	54,331
Total Special Education Cluster			<u>936,183</u>
Title I Grants to Local Educational Agencies	84.010	3100002-12 & 11, & 3100102-12 & 11	1,109,290
Education Jobs Fund	84.410	EJOB00-10	7,280
Race to the Top	84.413	3960002-11	14,267
Rural Education	84.358	3140002-12	85,072
Improving Teacher Quality State Grants	84.367	3230002-12, 3230003-11 & 10	178,149
Career & Technical Education Basic Grants to States	84.048	621310-13, 4621110-10 & 4621210-12, 4621332-12 & 1	36,590
English Language Acquisition State Grants	84.365	3300002-12	14,875
Passed through KCTCS:			
Migrant Education - State Grant Program	84.011	3112S & 3113	41,831
Passed through State Department of Juvenile Justice:			
Title I State Agency Program for Neglected and Delinquent Children :	84.013	3133, 3133T	<u>16,859</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,444,410</u>
<u>U.S. Department of Labor:</u>			
Passed Through West KY Workforce:			
WIA Youth Activities	17.259	A130515	<u>46,284</u>
Total WIA Cluster			<u>46,284</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>46,284</u>
<u>U.S. Department of Agriculture:</u>			
Passed through State Dept. of Education:			
National School Lunch Program - cash	10.555	7750002-13/12	1,113,127
National School Lunch Program - donated foods (Note B)	10.555	N/A	145,891
School Breakfast Program	10.553	7760005-12/13	550,993
Summer Food Service Program for Children	10.559	7690024-12/13 & 7740023-12/13	35,521
Total Child Nutrition Cluster			<u>1,845,532</u>
State Administrative Expenses for Child Nutrition	10.560	7850012-12	<u>1,000</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>1,846,532</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 4,337,226</u>

See accompanying notes to schedule
of expenditures of federal awards

GRAVES COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2013

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Graves County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. Per USDA instructions, commodities expended are recorded at an amount equal to commodities received and the inventory at June 30, 2013 is combined with purchased food inventory. The pass-through number for the commodities program was not available for the Schedule of Expenditures of Federal Awards.

NOTE C – RECONCILIATION OF SCHEDULE TO FINANCIAL STATEMENTS

The following is a reconciliation of the total in the schedule of expenditures of federal awards to the total federal revenue included in the statement of revenues, expenditures and changes in fund balances – governmental funds on page 13 of the audit report and in the statement of revenues, expenses, and changes in net position – proprietary funds on page 16 of the audit report:

Total intergovernmental – indirect federal from page 13	\$	2,556,854
Total intergovernmental – direct federal from page 13		162,419
Total federal grants from page 16		1,699,641
Donated commodities from page 16		145,891
Less: Build America Bond rebate		(158,405)
Less: Medicaid funds received		(73,091)
Plus: Amount of federal funds coded as a negative expenditure		<u>3,917</u>
Total on page 45	\$	<u><u>4,337,226</u></u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
and Members of the Board of Education
Graves County School District
Mayfield, Kentucky

I have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Kentucky Public School District's Independent Auditor's Contract, including *Appendix I to the Independent Auditor's Contract – Audit Extension Request* and *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Graves County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Graves County School District's basic financial statements, and have issued my report thereon dated November 11, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Graves County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Graves County School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Graves County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Graves County School District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the Kentucky Public School District's *Independent Auditor's Contract*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink, appearing to read "Kim Glavin". The signature is written in a cursive, flowing style.

Benton, Kentucky
November 11, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
and Members of the Board of Education
Graves County School District
Mayfield, Kentucky

Report on Compliance for Each Major Federal Program

I have audited the Graves County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Graves County School District's major federal programs for the year ended June 30, 2013. Graves County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Graves County School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Kentucky Public School District's Independent Auditor's Contract, including *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graves County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Graves County School District's compliance.

Opinion on Each Major Federal Program

In my opinion, Graves County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Graves County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit, I considered Graves County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Graves County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in dark ink, appearing to read "Kim Glavin". The signature is written in a cursive, flowing style.

Benton, Kentucky
November 11, 2013

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013**

I. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of the Graves County School District.
2. No significant deficiencies in internal control over financial reporting were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Graves County School District were disclosed during the audit.
4. No significant deficiencies in internal control over the major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for Graves County School District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 relative to the major federal award programs for Graves County School District.
7. The programs tested as major programs included:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Special Education Cluster:	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
Child Nutrition Cluster:	
National School Lunch Program	10.555
School Breakfast Program	10.553
Summer Food Service Program for Children	10.559

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Graves County School District did not qualify as a low-risk auditee.

II. FINDINGS – FINANCIAL STATEMENT AUDIT

There were no findings in the current year required to be reported in this schedule.

III. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings in the current year required to be reported in this schedule.

GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2013

I. FINDINGS – FINANCIAL STATEMENT AUDIT

2012-01. School Food Service Reimbursement Requests

When we examined the reimbursement report that was received from the state for the month of April in the previous year, we noted that the March and April reimbursement amounts were on the same report. We searched for a copy of the March printout from the SCN Online Reporting System to determine the date the reimbursement request was filed; however, there was no printout found. On the printout for the month of April, an error code was noted, with the description “prior month claim is unpaid”. It appeared that the March request was not filed on a timely basis. After the audit report was completed, the new finance officer and food service director discovered that the report was not filed on time because of a computer issue and the SCN administrator had waived the late filing so that it did not go on record. In the current year, all reports were filed in a timely manner with documentation printed to support the submission.

2012-02. School Food Service Revenue

When we were reviewing outstanding checks in the school activity funds in the prior year, we noted that three schools had checks written to the Graves County Food Service account from April and May that had not cleared. We asked the food service administrative assistant if she knew why the checks were never deposited into the food service account. She searched the office and discovered four checks that totaled \$1,434.15 from the three schools in the desk. These checks were immediately deposited. During October, the new food service director, administrative assistant and finance officer discovered several more checks and cash from other sources for catering services, many of which were six months old. New accounting procedures were developed for these types of receipts and we noted timely deposits for such events during the current year.

2012-03. Verification of Free and Reduced Price Applications

During the prior year, we examined documentation related to the sample of free and reduced meal applications selected as a part of the verification of income process, which was performed by the food service director. We noted that although information was requested from the applicants selected for testing, some documentation was not received and no follow up was done to see that all income was verified. Also, some applicants should have been changed to a different status, but were not. In the current year, the new food service director and administrative assistant worked together to pull data on October 1 and letters were sent to the selected sample pool from LunchBox requesting proof of income. The director and assistant made follow-up phone calls, with documentation of when called, to all families who had not returned the appropriate verification. Once all data was returned, the director verified income listed on applications and changed any necessary meal status. After cross-checking between the two, verification data was reported to the state in a timely manner. We noted the new process worked effectively and applications were properly verified.

GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)
June 30, 2013

II. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2012-04. Verification of Free and Reduced Price Applications

The information listed in reference number 2012-03 in the Findings – Financial Statement Audit in Part I on the previous page was the same for this finding. This finding applied to both the financial statement audit and the audit of a major federal award program; therefore, the same finding was listed in both sections.

2012-05. School Food Service Reimbursement Requests

The information listed in reference number 2012-01 in the Findings – Financial Statement Audit in Part I on the previous page was the same for this finding. This finding applied to both the financial statement audit and the audit of a major federal award program; therefore, the same finding was listed in both sections.

MANAGEMENT LETTER POINTS

Kentucky State Committee for School District Audits
and Members of the Board of Education of
Graves County School District
Mayfield, Kentucky

I have audited the financial statements of the Graves County School District for the year ended June 30, 2013, and have issued my report thereon dated November 11, 2013. In planning and performing my audit of the financial statements of Graves County School District, I considered the District's internal control to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls or operating efficiency. These comments and recommendations have been discussed with the appropriate members of management and are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. These comments are summarized on the following pages.

This report is intended solely for the Board, management, and others within the organization as deemed appropriate.

Respectfully,

A handwritten signature in dark ink, appearing to read "Kim Glan". The signature is written in a cursive, flowing style.

Benton, Kentucky
November 11, 2013

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS**
June 30, 2013

CORRECTED PRIOR YEAR COMMENTS

School Activity Funds

- 1) Central Elementary School: In the prior year, we noted that none of the interfund transfer forms were signed for approval by either the remitting fund sponsor or the principal. In the current year, forms were properly signed.

In our test of the March inventory control worksheet in the prior year, we noted that there was a shortage of \$149.05 that was not explained. In the current year, differences were appropriately explained.

- 2) Sedalia Elementary School: In the prior year, we noted that deposits were not being supported by multiple receipt forms. In the current year, we noted that multiple receipt forms were being used.
- 3) Wingo Elementary: In the prior year, we noted that detailed invoices were not retained from the beverage vendor. Payments were made from a statement that listed the total of each invoice. Without the detailed invoices, we could not verify the number of items delivered as listed on the inventory control worksheets. In the current year, detailed invoices were obtained.
- 4) Graves County High School: In the prior year, interfund transfer forms were being signed by the activity fund treasurer instead of the remitting fund sponsor. In the current year, the majority of the forms were properly signed; however, as noted in the current year comments, a few were not signed or were missing.

Also in the prior year, we noted thirteen receipts that were not deposited in a timely manner. In the current year, the majority of the receipts were deposited in a timely manner; however, we did note some gate receipts that were not, as noted in the current year comments.

In a random sample of disbursements in the prior year, three standard invoices were not signed by either the principal or the activity fund sponsor. In our other testing, we noted one disbursement with no approval signature, two with no invoice or other documentation from the vendor, and two that spent more than the approved purchase order. In the current year, we noted proper documentation for all but one disbursement in our tests.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (Continued)**
June 30, 2013

CURRENT YEAR COMMENTS

District-Wide

Cash Controls

Kentucky Revised Statutes require all local governments, including school districts, to invest its funds in accordance with certain regulations. Funds may be invested in any bank which is insured by the Federal Deposit Insurance Corporation or similar entity or which is collateralized to the extent uninsured. At June 30, 2013, the Graves County High School had \$378,559 in its bank account, with no collateral pledged for the amount in excess of FDIC coverage; therefore, \$128,559 was subject to custodial credit risk. We recommend that the District contact the bank and obtain sufficient pledged securities.

Response – Graves County High School maintains its checking account at First Kentucky Bank, although the district changed its funds to FNB Bank two years ago. This is an unusually high balance for the high school; however, it is likely that because district funds had been in the same banking institution until two years ago, the high school's deposits were likely covered in the pledge of securities supplied to the district in previous years. At the suggestion of the auditor, the district obtained a pledge of securities for balances above \$250,000 from First Kentucky Bank.

School Activity Funds

- 1) Central Elementary School: We noted that multiple receipt forms are not being used to document funds received. Although copies of checks are retained, these copies are stapled with all of the receipt tickets and we could not determine which check copies belonged to which receipt. The multiple receipt forms should be used when applicable and check copies should be attached only to the receipt ticket that includes those checks.

In a random test of 25 disbursements, we noted that six purchase orders were dated after the invoice date. Purchase orders should be completed and approved prior to placing the order for merchandise or services. Also in our test, one check was processed as an electronic check by the vendor. When this occurs, the original check is given back to the purchaser. The original check was not retained in the file. When checks are processed in this manner, the original check should be kept in the file to document who signed the check. If the check has not been defaced in some manner by the vendor, the purchaser should write "e-check" across the face of the check.

Response – We have discussed the audit findings with the principal and treasurer and note the effort to document receipts properly by retaining copies of checks. We will work with those staff members to ensure that proper documentation accompanies receipts and are organized more efficiently with the proper receipt. We emphasized the need for pre-approval of expenditures on a properly executed purchase order before the obligation of funds, as well as the need for retention of electronically processed checks for documentation purposes.

- 2) Cuba Elementary School: In a random test of 25 disbursements, we noted that eight purchase orders were dated after the invoice date. Two others were not dated at all. Purchase orders should be completed and approved prior to placing the order for merchandise or services.

Response – We have discussed the audit findings with the principal and treasurer, and we emphasized the need for pre-approval of expenditures, as noted by the principal's signature, on a properly executed purchase order before the obligation of funds.

GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)
June 30, 2013

CURRENT YEAR COMMENTS (Continued)

School Activity Funds (Continued)

- 3) Fancy Farm Elementary School: In an effort to match potential collections from a pizza kit fundraiser, we determined that based on the number of kits paid for with the invoice, the collections should have been approximately \$7,345. The amount of the deposits that were noted as being for this fundraiser was \$6,649. It is possible that other deposits were for this fundraiser, but without better descriptions on the receipts, an exact amount could not be determined. We recommend the use of a fundraiser worksheet, form F-SA-2B, so that the collections for the fundraiser may be compared to the deposits to determine reasonableness of any shortage or overage.

In a random test of 25 disbursements, we noted that eleven purchase orders were dated after the invoice date. We also noted two disbursements that were paid to individuals, but were not supported by a standard invoice and one disbursement for a registration fee that was not supported by an invoice. Purchase orders should be completed and approved prior to placing the order for merchandise or services. An invoice or standard invoice should be used to document every disbursement.

Response – We have discussed the audit findings with the principal and treasurer. We recognize that a new treasurer was hired during the 2012-13 school year, and she has been eager to receive additional training. We will work to comply with Redbook procedures and use forms for proper documentation for receipts and standard or vendor invoices as documentation for all disbursements. We emphasized the need for pre-approval of expenditures, as noted by the principal's signature, on a properly executed purchase order before the obligation of funds.

- 4) Farmington Elementary School: In an effort to match potential collections from a cookie dough fundraiser with deposits, we noted that the list of receipts often does not contain a description of the type of funds received. When using the large deposits during the time of the fundraiser, we were within \$1 of the potential collections; however, we recommend the use of the fundraiser worksheet, F-SA-2B, so that the collections for the fundraiser may be compared to the deposits more accurately to determine reasonableness. We also noted nine receipt tickets for which there was no other supporting documentation, two multiple receipt forms that listed a total only instead of individual amounts, and one multiple receipt form where the individual lines did not equal the total on the form. We recommend the use of multiple receipt forms or making copies of checks to better document funds received for each receipt ticket, making sure that the form is properly completed

In a random test of disbursements, we noted that purchase orders are always dated the same day as the check. Purchase orders should be completed and approved prior to placing the order for merchandise or services.

Response – We have shared the audit findings with the new principal and the treasurer. We understand there has been great turnover in administration with four principals in four years, but we hope that we now have the stability to strengthen proper accounting procedures. We seek to comply with Redbook procedures and proper accounting procedures, by using forms which specify the source of funds, individual amounts where possible, and a reconciliation of receipts. To ensure that the treasurer is protected from exposure, we recommend that she accept no funds without supporting documentation from a second party and that she make copies of all checks that are deposited for supporting documentation. We emphasized the need for pre-approval of expenditures on a properly executed purchase order before the obligation of funds.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)**
June 30, 2013

CURRENT YEAR COMMENTS (Continued)

School Activity Funds (Continued)

- 5) Lowes Elementary School: There were fewer than 30 deposits made for the year. The dates on the receipt tickets were the same dates as the deposits. This indicates that either the teachers or other staff members are holding funds and not turning in money on a daily basis or the treasurer is not giving the person who remits the funds a receipt at the time the funds are turned in and only prints receipt tickets when the funds are taken to the bank. Upon inquiry, it was noted that both scenarios have taken place. We recommend that all staff be instructed to remit funds to the treasurer on a daily basis and to wait until funds are counted and a receipt is given to them before leaving.

In an effort to match potential collections from a fundraiser with deposits, we noted that receipts often do not contain a description of the type of funds received. We recommend that specific descriptions be used on each receipt and the fundraiser worksheet, F-SA-2B should be used so that the collections for fundraisers may be compared to the deposits more accurately to determine reasonableness.

In a review of interfund transfers, we noted that approval signatures of the sponsor were not always obtained. If there is no sponsor for a particular activity, it would be helpful to note on the signature line that there is no sponsor.

In a random test of 25 disbursements, we noted that six purchase orders were dated after the invoice date. We also noted one disbursement that was not supported by an invoice. When reviewing seven debit card transactions, we noted one that did not have an invoice, four with purchase orders dated after the invoice date, and three with sales tax paid. Purchase orders should be completed and approved prior to placing the order for merchandise or services. An invoice or standard invoice should be used to document every disbursement. Sales tax should not be paid on disbursements other than meals or hotels.

Response – We have discussed the audit findings with new principal and treasurer. We are concerned about the timely deposit of funds, noting there may be several days with no deposits in the life of an elementary school and noting the need to control expenses associated with driving to deposit money daily. We will work to ensure, in compliance with Redbook procedures, that all teachers turn in receipts in a timely fashion, utilizing proper forms that indicate the date the funds were submitted to the treasurer and the source of the funds. We do not feel that it is practical for the treasurer – who also must function as the secretary and receptionist for the school – to always stop what she is doing and count the money at the moment it is received, nor is it feasible for teachers to miss classroom time with students waiting for funds to be counted. When funds are received, we expect the treasurer to count and give a receipt to the submitting sponsor as soon as funds are reconciled, and deposits should be made on at least a twice per week basis - or weekly if received funds do not exceed \$100. In most instances we would expect the reconciliation to occur within 24 hours of receipt, and when school circumstances prohibit that, we recommend documentation that supports the delay.

We will seek to secure principal and sponsor signatures on inter-fund transfers, or a notation and treasurer signature when there is no sponsor. We emphasized the need for pre-approval of expenditures on a properly executed purchase order before the obligation of funds, as well as the necessity that all disbursements be accompanied by an invoice, with sales tax excluded on purchases not associated with travel.

Upon investigation we discovered that the debit card was secured for purchases from vendors that would not take a purchase order. We have secured the ability to purchase from those vendors using district purchase orders. Because of the exposure that exists with the ability to use a debit card, the issues associated with sales tax, and the issues associated with necessary pre-approval, we have recommended that the debit card be cancelled.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)**
June 30, 2013

CURRENT YEAR COMMENTS (Continued)

School Activity Funds (Continued)

- 6) Sedalia Elementary: In a random sample of 25 cash receipt tickets, we noted that four multiple receipt forms were not signed by the treasurer. The multiple receipt forms should be signed by the person remitting the funds, as well as the treasurer.

In a random test of 25 disbursements, we noted that eleven purchase orders were dated after the invoice date. Purchase orders should be completed and approved prior to placing the order for merchandise or services.

Response – We have discussed the audit findings with the principal and secretary, and we emphasize the need for pre-approval of expenditures on a properly executed purchase order before the obligation of funds. We will attempt to better comply with Redbook procedures by including a treasurer's signature on the receipt form, understanding that this was most likely an oversight, as the treasurer generally signs the receipt for those funds.

- 7) Symsonia Elementary School: In a random test of 25 disbursements, we noted that ten purchase orders were dated after the invoice date. Purchase orders should be completed and approved prior to placing the order for merchandise or services.

Response – We have discussed the audit findings with the principal and treasurer, and we emphasized the need for pre-approval of expenditures on a properly executed purchase order before the obligation of funds.

- 8) Wingo Elementary: We noted that for the majority of the cash receipts tickets, multiple receipt forms or check copies are not being used to document funds received. When teachers collect funds from students, the multiple receipt form should be used. When checks are received in the mail, copies of the checks should be retained to support the cash receipt ticket.

Response – We have discussed the audit findings with the principal and treasurer. We will seek to secure proper documentation for receipts using applicable Redbook forms. We will also seek to improve documentation by retaining copies of all checks deposited.

- 9) Graves County Middle School: For cash receipts, the school has typically used a form to remit money that includes the amount being remitted, copies of the checks, and the signature of the person turning in the funds. In some cases, it would be better to document the receipts by using a multiple receipt form. We recommend using the multiple receipt form for such items as field trips, sales of shirts, or other similar items.

In a random test of disbursements, one standard invoice was signed by a different person than the payee. Standard invoices should be signed by the payee. We also noted one disbursement that was greater than the purchase request amount. When this is unavoidable, we recommend that the principal note approval on the purchase request for the excess. We also noted that actual purchase orders are not used. The purchase request could be used in place of a purchase order if there was a space to indicate the date the request was approved. We recommend revising the purchase request form to better document the approval.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)**
June 30, 2013

CURRENT YEAR COMMENTS (Continued)

School Activity Funds (Continued)

9) Graves County Middle School (Continued)

Response – As was noted, Graves County Middle School utilizes a form of its own that generally provides adequate documentation for receipts and standard purchase request forms that are printed and numbered. We have shared the audit findings with the principal and school treasurer and have requested they date the purchase requests appropriately until the current forms are depleted and new forms can be printed and to use the multiple receipt form when it is more appropriate. We feel that dating the requests provides sufficient documentation instead of bearing the expense of discarding the current forms that have already been printed. When new forms are printed, a place for the date will be added. We also suggest that, if in the rare instance that a payee is not available to sign an invoice, proper documentation should accompany the invoice to indicate why such an exception was necessary. We will also seek to secure principal approval, signified by an additional signature and date, when purchases exceed the purchase request amount.

10) Graves County High School:

Cash Reporting: The amounts on the annual report for the school were not in agreement with the actual cash amounts. We noted that the certificate of deposit had been cashed and deposited to the checking account. When the amount was deposited, it was posted as a cash receipt instead of as a transfer from one account to another; therefore, the cash account was overstated on the annual report by \$16,640. Also, we noted three checks that had been manually voided; however, the checks were still shown as outstanding on the bank reconciliation since they had not been voided on the computer system. This caused the cash account to be understated by \$4,885. We recommend that the treasurer receive training in the proper way to transfer funds between accounts and in voiding checks from the system.

Response – The district acknowledges that with the treasurer being hired only a month before a new principal was placed at the high school, the treasurer assumed a difficult job without adequate training. The treasurer has received Redbook training from the district finance officer, and district payroll and account clerks have also worked with the treasurer to understand proper procedures for transferring funds and voiding checks within the system. The funds for the certificate of deposit have been properly removed from the school's balance sheet and cash values appropriately stated.

Cash Receipts Procedures: We noted several checks that were made payable to the bank in order to get change for various events, such as student registration or concessions. Checks for change should be made payable to the person who is in charge of the funds instead of to the bank. Also, these funds should be deposited separately from the receipts for the event. For three of the checks noted in our test, the amounts were deposited with other funds.

Response – We have shared the audit findings with the principal and treasurer and recognize this as a shortcoming in the training provided for the school treasurer. We have trained both in appropriate Redbook procedures that checks for start-up cash should be made to the individual in charge of the activity, and that those funds should be deposited separately when the activity is complete. For summer registration and collection of fees, the start-up cash check should be made to an administrator or secretary working with the event who is not one of the two signatures on the check.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)**
June 30, 2013

CURRENT YEAR COMMENTS (Continued)

School Activity Funds (Continued)

10) Graves County High School (Continued)

Ticket Sales Procedures: In a test of controls over ticket sales for athletic events, we noted that the amount listed as cash collected and the amount of over/short was marked out on three forms. The cash collected was changed to the actual amount that was deposited and the over/short was changed to be zero. Based on the results of this test, we scanned all F-SA-1 forms to determine if this was done throughout the year. Most of the forms for the year had been changed. While the differences were not material, the forms should not be altered to force the total collections to equal the amount deposited.

On the volleyball game that was tested, the athletic director signed the form as both the person in charge of sales and as the ticket taker. Potential sales for that game based on ticket numbers was \$350, while only \$300 was deposited. On the basketball game that was tested, only one of three forms was signed by the person in charge of sales. On one of the forms, the only signature was the treasurer. On that form, the ticket numbers that were attached as beginning and ending numbers did not match the numbers listed on the sheet. Based on the actual tickets, there would have been 262 sold, while the sheet showed that 424 had been sold. The money that was actually collected agreed to 424 sold tickets. On the football game that was tested, one form was signed only by the treasurer and on another form one person signed as both the person in charge of sales and the ticket taker. Another form was not signed by the treasurer. There should be two people at each gate and each person should sign the form. The treasurer should also sign each form when the funds are remitted to her.

We also noted that deposits from athletic events were not timely for two of the games selected. One game was played on a Monday, with the deposit being made on a Friday. Another game was on a Saturday, but the money was not deposited until Wednesday. These funds should be deposited the following day.

Response – We have discussed the audit findings and have trained the principal, athletic director, and treasurer in proper Redbook accounting procedures. We recognize the lack of proper responsibility placed upon staff members who receive ticket receipts and those in charge of ticket sales before turning funds into the treasurer and have instructed the treasurer to not receive funds from any source unless the responsible party has first completed a proper reconciliation of funds. At that point, the treasurer should do an independent reconciliation, note any discrepancies, and sign the form. We also recommend that the ticket immediately before the first ticket sold, and the ticket immediately after the last ticket sold be stapled to the reconciliation form.

The nature of gate receipts – with sometimes high volume of cash transactions – is that cash will often not equal the anticipated receipts. However, we recognize the importance of utilizing pre-numbered tickets to safeguard cash receipts. Form F-SA-1 recognizes the possibility of discrepancies and provides space for documentation of such. We will work with school personnel to ensure that the form is utilized properly – including signatures of verification by the ticket seller, person in charge of sales, and the treasurer – for all events where admission is charged. We also see the value in taking a few moments each year in reviewing the proper use of the form with all faculty and staff members who work athletic events. We have affirmed to our staff the fundamental accounting principle of segregation of duties and its importance in proper accounting of funds.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)**
June 30, 2013

CURRENT YEAR COMMENTS (Continued)

School Activity Funds (Continued)

10) Graves County High School (Continued)

We affirm the need for timely deposits of all funds received into all district accounts. While Redbook procedures call for deposits on the next day after an event, we recognize that there will be rare occasions when the sheer volume of receipts in a single day or over an extended break, when the treasurer is absent from work, or when overtime would be required that may be such that deposit on the next day is not possible. On those occasions when a deposit cannot be made by the next business day, we recommend that proper documentation as to the reason for delay be included – and confirmed by the principal - with the deposit slip for those receipts.

Cash Disbursements Procedures: In a test of disbursements, we noted one check that was signed by the treasurer only. Checks should be signed by two authorized individuals. We also noted one check that was a reimbursement to an employee for a registration; however, there was no documentation to show the amount of the registration fee or that the employee had actually paid for the registration personally. We also noted a check to the Kentucky High School Coaches Association for \$2,760 for 92 coach's cards. While the Red Book in effect for the year under audit did not specifically prohibit the purchase of these types of cards, the new Red Book does prohibit the payment of an individual's organization dues or fees that do not provide a direct benefit to the student group. While some of the cards may have been beneficial to help reduce other expenses incurred, there was no list to show who obtained these cards and whether there was any benefit to the students as opposed to benefitting the card holder only.

Response – We have shared with the principal and treasurer the requirement that all checks be signed by two approved signatures, which would generally include one administrator, and that no disbursement of funds be made without a signed invoice or proper documentation of the expense. Though reimbursements were not district policy in this fiscal year, we understand that some organizations will not take a purchase order and have changed our policy for the 13-14 school year. However, no reimbursements should be made without prior authorization of expenditures through a properly executed purchase request form, and at no time do we reimburse for sales tax. The purchase of coaches cards were not a prohibited expense under the 2008 version of the Redbook which was intact through the 12-13 school year. We affirm the value of these purchases for reducing total school expenditures but have trained school personnel to understand that those purchases should not be made with school activity funds in order to comply with the new Redbook procedures which went into effect on July 1, 2013.

Transfer Procedures: In a test of interfund transfers, we noted three forms for which there was no approval by the sponsor (athletic director) to make the transfer. There were also three transfers in our sample for which transfer forms could not be located in the file. Forms should be used for each transfer and should be approved the sponsor who is transferring the funds out and by the principal.

Response – We have discussed the audit findings with the principal and treasurer and will work to ensure that a transfer form is utilized for all interfund transfers that must include the signature of the athletic director or other sponsor and the principal. If there is no sponsor for the organization, the form should be signed by the principal and the treasurer with notation of such a situation.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)**
June 30, 2013

CURRENT YEAR COMMENTS (Continued)

School Activity Funds (Continued)

10) Graves County High School (Continued)

Fundraiser Procedures: When attempting to match potential collections from fundraisers to actual deposits, the paperwork needed to accurately calculate the amounts were not all available. Some forms had been sent to the company without keeping copies and others had been given to students to deliver orders. We recommend the use of the fundraiser worksheet from the Red Book to calculate the reasonableness of funds received to amounts that should have been collected.

Response – We have shared the audit findings with the principal and treasurer and will work to secure proper documentation for all receipts, including the expectation of use of appropriate Redbook forms by activity sponsors, and retention of documentation by the treasurer.